

Government of the District of Columbia
Office of the Chief Financial Officer



Jeff DeWitt
Chief Financial Officer

MEMORANDUM

TO: The Honorable Phil Mendelson
Chairman, Council of the District of Columbia

FROM: Jeff DeWitt
Chief Financial Officer

DATE: June 3, 2014

SUBJECT: Fiscal Impact Statement – “Skyland Shopping Center Term Sheet Amendment Approval Resolution of 2014”

REFERENCE: Draft Resolution shared with the Office of Revenue Analysis on May 20, 2014

Conclusion

Funds are sufficient in the proposed FY 2015 through FY 2018 budget and financial plan period to implement the proposed resolution. However, the approval of the resolution would increase the risk that beginning FY 2019 the District may have to pay debt service costs from its General Fund.

The proposed changes to the Skyland Shopping Center term sheet would require the District to issue TIF bonds before all private financing is in place for the project. This change deviates from the District’s current practice that financing for full project costs are in place before issuing TIF bonds. As a result, if the financing for the project is not secured in time leading to the delay or stalling of the construction, the Skyland project may fail to generate property and sales tax increments to service the TIF Bonds. In this case, an estimated \$2.9 million in annual debt service would be paid from the Downtown TIF and therefore reducing revenues in the General Fund.

Background

The Skyland Town Center Omnibus Act of 2014¹ (the “Act”) authorized issuance of up to \$40 million of District tax increment financing (TIF) bonds to support the redevelopment of the Skyland Shopping Center. The Act pledged the support of incremental revenue from the District’s Downtown TIF area—a part of District’s General Fund—to increase the marketability of the TIF bonds.

The Act also approved of the disposition of the Skyland property based on the terms agreed on between the Deputy Mayor for Planning and Economic Development and the Skyland Holdings,

¹ Enacted April 28, 2014 (D.C. Act 20-309; 61 DCR 4315).

The Honorable Phil Mendelson

FIS: "Skyland Shopping Center Term Sheet Amendment Approval Resolution of 2014," Proposed Resolution shared with the Office of Revenue Analysis on May 20, 2014

LLC² ("the developer") as outlined in a term sheet dated June 28, 2013. Under the 2013 term sheet, the District would issue the TIF bonds only after the developer closed on debt and equity financing to fund the entire Phase I project cost. The revised term sheet requires the District to issue bonds approximately twelve months before the developer obtains the remaining project funding (private debt and equity) for Phase I.

Phase I is estimated to cost approximately \$157 million financed through \$40 million District TIF issuance, \$7 million District grants,³ \$55 million EB5 funding,⁴ \$46.3 million private debt and \$8.7 million developer cash equity. Under these revised terms, the District would issue the TIF bonds early in fiscal year 2015. By that time, the only other funding invested in Phase I of Skyland would be approximately \$8.3 million in developer equity and a \$1.5 million District funded grant.

Financial Plan Impact

Funds are sufficient in the proposed FY 2015 through FY 2018 budget and financial plan period to implement the resolution. The financial plan includes one year of debt service and the District's debt-cap calculations already account for the debt service for the Skyland project.

The Council should note that the revised terms for the Skyland TIF increase the risk that the District may have to support the debt service through its General Fund. If the developer fails to secure the required debt the project may be delayed or stalled requiring the District to pay the debt service not from the incremental revenues the project is expected to generate but from the District's Downtown TIF area. The impact of any project delay falls outside of the financial plan period because the District will fund three years of capitalized interest in the bond issuance and has already set aside one year of debt service in the budget. Beginning FY 2019, if construction is still not completed, the District would pay an estimated \$2.9 million per year to service the TIF bonds.⁵

The Deputy Mayor for Planning and Economic Development has indicated the Funding Agreement will include terms for issuing the TIF bonds that could reduce the amount of debt service to be paid from the General Fund. The exact amount is unknown until the details of the Funding Agreement are finalized.

² Skyland Holdings, LLC is a joint venture consisting of The Rappaport Companies, WC Smith, Harrison Malone Development LLC, the Marshall Heights Community Development Organization, Inc., and the Washington East Foundation.

³ The project is relying on a net \$34.6 million from the \$40 million gross authorization for TIF borrowing. However, the net amount cannot be guaranteed as it will depend on the bond market conditions at time of issuance.

⁴ EB5 stands for the fifth employment-based immigrant visa category for foreigners seeking to invest in a business that will benefit the U.S. economy. The basic amount required to invest is \$1 million, although that amount is reduced to \$500,000 if the investment is made in a rural or high unemployment area, such as the District. The investors must demonstrate that the businesses they invest in creates or saves at least 10 jobs.

⁵ In every other TIF or PILOT bond the District has issued, official statements have always disclosed the details of the project's finance plan, including the construction lender. Under the proposed term sheet, the Skyland offering statement will have to disclose that the lender has not been identified and is not expected to fully commit its funds for at least 12 months subsequent to the TIF issuance.